

(c) Any variances in deliveries from the agreed monthly or quarterly quantities will be accepted only at our discretion. Any excess quantities of hogs accepted by us will not compensate for prior or future deficit monthly or quarterly quantities.

(d) You acknowledge that you bear the risk of hog production shortfalls. Further, your failure to deliver the agreed monthly or quarterly hog quantities, unless excused pursuant to paragraph 13, will result in you having to pay us Delivery Shortage Assessments pursuant to paragraph 3(f).

(e) You acknowledge that our payment of the Contract Price as set forth in paragraph 3 is made in reliance upon your promise to perform under this Agreement for the entire term of the contract.

### 3. PRICE.

(a) The "Contract Price" for contract hogs sold to us each week shall be a price per carcass cwt. determined by us pursuant to this paragraph 3(a).

(1) If the Adjusted Cutout, defined in paragraph 3(b), is within a range of \$46.00 to \$58.00 per carcass cwt., then the Contract Price shall be equal to the Adjusted Cutout.

(2) If the Adjusted Cutout is below \$46.00 per carcass cwt., then the Contract Price shall be equal to the midpoint between the Adjusted Cutout and \$46.00 per carcass cwt.

(3) If the Adjusted Cutout is above \$58.00 per carcass cwt., then the Contract Price shall be equal to the midpoint between the Adjusted Cutout and \$58.00 per carcass cwt.

(4) For example, assume the Adjusted Cutout is \$52.00 per carcass cwt. Since this amount is within the range of \$46.00 to \$58.00 per carcass cwt., then the Contract Price will be \$52.00 per carcass cwt. For another example, assume the Adjusted Cutout is \$38.00 per carcass cwt. The Contract Price will then be \$42.00 per carcass cwt., which is the midpoint between such Adjusted Cutout and \$46.00 per carcass cwt. For another example, assume the Adjusted Cutout is \$68.00 per carcass cwt. The Contract Price will then be \$63.00 per carcass cwt., which is the midpoint between such Adjusted Cutout and \$58.00 per carcass cwt.

(b) We will calculate the "Adjusted Cutout" each week as follows:

(1) The Adjusted Cutout shall be eighty-eight percent (88%) of the average value per carcass cwt. of the prior week's (Monday - Friday) USDA daily carcass cutout values reported by USDA Market News in *National Daily Carlot Pork*, report LS500 ("Cutout Value Report"). The Cutout Value Report is available at [www.ams.usda.gov/mnreports/nw\\_ls500.txt](http://www.ams.usda.gov/mnreports/nw_ls500.txt). For example, assume the prior week's (Monday - Friday) daily carcass cutout values reported in the Cutout Value Report are \$58.75, \$58.25, \$59.10, \$59.90 and \$59.60. Adding those five numbers together and dividing by five results in an average cutout value of \$59.12 per carcass cwt. That average cutout value of \$59.12 multiplied by 88% equals an Adjusted Cutout of \$52.03 per carcass cwt.